Right funding mix for Europe's regions: balancing financial instruments and grants in EU cohesion policy

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The Committee on Regional Development adopted the own-initiative report by Andrey NOVAKOV (EPP, BG) on the right funding mix for Europe's regions: balancing financial instruments and grants in EU cohesion policy.

The Committee on Budgets, exercising its prerogative as an associated committee in accordance with Article 54 of the Rules of Procedure, also gave its opinion on the report.

As a reminder, delivery methods of EU Cohesion Policy consist mainly of a **mix of grants and financial instruments** (microfinance, loans, guarantees, equity and venture capital), invested through the ESI Funds under shared management (involving national authorities and intermediaries) or centrally managed by the Commission and the EIB Group.

Impact of grants and financial instruments: Members noted that **between 2007 and 2013**, the European Structural and Investment (ESI) Funds investment through grants and financial instruments resulted in solid impact and visible results by investments in EU regions, which amounted to EUR 347.6 billion, excluding national co-financing and additionally leveraged resources.

Members welcomed the fact that in **2014-2020**, the EU is expected to invest EUR 454 billion through ESI Funds, and with national co-financing for the investment in the form of grants and financial instruments the sum is expected to rise to EUR 637 billion.

According to estimations, allocations in financial instruments from the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the European Social Fund (ESF) would be **almost twice as high** as the 2014-2020 period, reaching EUR 20.9 billion, compared to the 2007-2013 period.

Although they are supporting the same cohesion policy objectives, ESI Funds' grants and financial instruments, under shared management, have **different intervention logic and application**. Depending on the type of the project, grants have various strengths as compared to financial instruments. Financial instruments offer advantages, such as leverage and revolving effects, the attraction of private capital and coverage of specific investment gaps through high-quality bankable projects.

Financial instruments' performance – challenges: while recognising the importance of using financial instruments in cohesion policy operations, Members noted that there are **significant differences across the EU regarding the penetration of financial instruments**. Members noted that implementation delays to ESI Funds may affect disbursement rates, revolving and leverage.

Simplification, synergies and technical assistance – solutions: the report highlighted that, despite the Commission's actions, complexity still exists in improving regulation and limiting formalities, which constitute disincentives to use financial instruments.

Members insisted on the need to:

- **combine much more easily** ESI Funds microcredit, loans, guarantees, equity and venture capital, while ensuring the same level of transparency, democratic scrutiny, reporting and control;
- ensure a **level playing field in state aid rules** concerning all financial instruments in order to avoid preferential treatment of certain sources of funding over others, especially in the field of SME support;
- identify opportunities for simplification and synergies through the **auditing process**;
- **explore the potential of combining grants and financial instruments**, notably through: (i) guidance to authorities; (ii) further simplification and harmonisation for the rules that concern combining different ESI Funds, as well as for the rules that concern combining the ESI Funds with instruments such as Horizon 2020 and EFSI; (iii) easing the regulatory burden by facilitating the abovementioned combining of allocations from more than one programme to the same financial instrument;
- **improve technical assistance practices** targeting local or regional stakeholders, as well as at all partners involved, adopt a joint technical assistance plan by the Commission and the EIB comprising financial and non-financial advisory activities, especially for major projects, as well as capacity-building, training, support and the exchange of knowledge and experience;
- **raise the profile of ESI Funds' investments** and to make it clearer that EU funding is involved.

Towards the right funding mix for the post-2020 period: Members recognised that both grants and financial instruments have their specific roles in cohesion policy but that they share the same focus on the way to achieving the five headline targets of the Europe 2020 strategy. Financial instruments perform better in well-developed regions and metropolitan areas, while grants address regional structural issues in outermost regions and regions with high harmonised unemployment rate.

The report emphasised the need to **ensure that financial instruments do not replace grants as the principal tool of cohesion policy.** It recalled that existing experience in delivery of ESI Funds indicates that the funding mix of grants and financial instruments addresses country-specific realities and that the funding mix cannot result in a one-size-fits-all solution.